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# Annual Report 1977

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*The Coca-Cola Company*



### **FRONT COVER PHOTOGRAPH**

**APOLLO 17 VIEW OF EARTH**—A fantastic view of the sphere of the Earth as photographed from the Apollo 17 spacecraft during the final lunar landing mission in NASA's Apollo program. This outstanding photograph extends from the Mediterranean Sea area to the Antarctica south polar ice cap. Note the heavy cloud cover in the Southern Hemisphere. Almost the entire coastline of the continent of Africa is clearly delineated. The Arabian Peninsula can be seen at the northeastern edge of Africa. The large island off the southeastern coast of Africa is the Malagasy Republic. The Asian mainland is on the Horizon toward the northeast.



*The Coca-Cola Company*

and Subsidiaries

Annual Report

for the year

**1977**



## Letter to Stockholders

March 1, 1978

Sales and earnings reached all time highs again in 1977. Consolidated net profit in 1977 was \$326 million or \$2.67 per share, compared with \$290 million or \$2.38 per share in 1976, an increase of 12.2%. Consolidated net sales in 1977 were over \$3.5 billion, an increase of 15.0% over 1976. These gains were primarily due to strong unit volume gains in the Company's soft drink operations both in the U.S. and overseas.

Unit soft drink volume in the United States in 1977 was well ahead of 1976, and every major Company brand except Fresca exceeded industry growth.

Foreign soft drink volume in 1977 was up well over 10%. Strong unit volume gains were reported in Latin America, Africa, and the Far East, while volume in Western Europe was only slightly higher than 1976 due to poor weather conditions in 1977 compared to the previous year's very hot summer. Of the Company's largest foreign markets, Brazil, Japan, and Mexico all reported strong volume gains, while Germany was up only slightly, and Canada was down slightly following strong gains in 1976.

The Company's citrus operations reported increased profits in 1977, on slightly higher volume. The Company's domestic coffee/tea operations reported lower profits due to higher coffee prices and lower volume throughout the industry. Foreign coffee/tea profits were higher. The Company's Aqua-Chem subsidiary reported record levels of sales and profits.

In January 1977 the Company completed its merger with The Taylor Wine Company, Inc., of Hammondsport, New York. To extend its wine operations, in August of 1977 the Company acquired Sterling Vineyards of Napa Valley, California, and in November acquired Gonzales & Co., Inc. which operates the Monterey Vineyard of Gonzales, California.

On January 9, 1978, the Company and Presto Products Incorporated, of Appleton, Wisconsin, announced preliminary agreement for the merger of Presto into The Coca-Cola Company in a stock-for-stock transaction subject to approval by Presto shareholders. Presto is engaged in the manufacturing and distribution of plastic film products for consumers and industry.

Proceedings continue in the complaint filed in 1971 by the Federal Trade Commission against The Coca-Cola Company and other soft drink companies, attacking the validity of the territorial provisions in bottlers' contracts. In October 1975 an administrative law judge dismissed the complaint, holding that the bottler agreements did not violate the antitrust laws. The staff appealed that ruling to the full Commission and oral arguments were heard in 1976. In 1977 additional written arguments were presented. The Commission has not yet ruled in the case.

Legislation adopted by the United States Congress and signed on November 23, 1977 by the President will delay for 18 months the ban on saccharin as proposed by the Food and Drug Administration. During the 18-month period, additional studies will be conducted to reconfirm the safety of using saccharin as a sugar substitute.

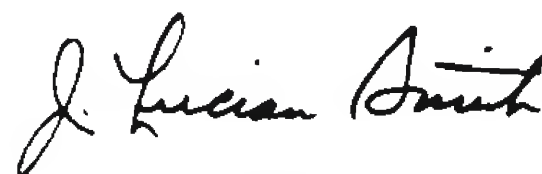
On March 1, 1978, the Board of Directors increased the quarterly dividend rate from 38½ cents per share to 43½ cents per share. This rate is equivalent to a full year dividend of \$1.74 per share, a 13.0% increase over the aggregate 1977 dividend of \$1.54. This is the sixteenth consecutive year that directors have approved dividend increases.

A separate mailing to stockholders will contain the proxy, proxy statement, and notice of annual meeting of stockholders to be held on Monday, May 1, 1978, at 10:00 A.M. Wilmington time, at 100 West 10th Street, Wilmington, Delaware.

For the Board of Directors



Chairman



President

## Board of Directors

J. Paul Austin  
Atlanta, Ga.

*Chairman, Board of Directors, and  
Chief Executive Officer  
The Coca-Cola Company*

John T. Lupton  
Chattanooga, Tenn.

*President, Great Western Coca-Cola Bottling Company  
President, Phoenix Coca-Cola Bottling Company  
President, Denver Coca-Cola Bottling Company*

C. H. Candler, Jr.  
Atlanta, Ga.  
*Retired*

James D. Robinson, III  
New York, N.Y.

*Chairman, Board of Directors, and  
Chief Executive Officer  
American Express Company*

Thomas H. Choate  
New York, N.Y.  
*Retired*

John A. Sibley  
Atlanta, Ga.

*Honorary Chairman, Board of Directors  
Trust Company of Georgia*

William A. Coolidge  
Cambridge, Mass.  
*Retired*

J. Lucian Smith  
Atlanta, Ga.

*President and Chief Operating Officer  
The Coca-Cola Company*

George S. Craft  
Atlanta, Ga.  
*Retired*

John R. Talley  
Atlanta, Ga.  
*Retired*

F. B. Eisenberg  
Atlanta, Ga.  
*Retired*

D. A. Turner  
Columbus, Ga.

*Chairman, Boards of Directors  
Columbus Bank & Trust Co., CB&T Bancshares, Inc.  
and W. C. Bradley Co.*

E. Garland Herndon, Jr., M.D.  
Atlanta, Ga.  
*Vice President for Health Affairs  
Emory University*

George W. Woodruff  
Atlanta, Ga.  
*Retired*

Lindsey Hopkins  
Miami, Fla.  
*Chairman, Board of Directors  
Security Trust Company*

R. W. Woodruff  
Atlanta, Ga.  
*Chairman, Finance Committee  
The Coca-Cola Company*

## Corporate Officers

J. Paul Austin . . . . . *Chairman of Board and Chief Executive Officer*  
J. Lucian Smith . . . . . *President and Chief Operating Officer*

### Executive Vice Presidents

Charles W. Adams—*Administration*  
Roberto C. Goizueta—*Technical*  
C. M. Halle—*Operations*  
Ira C. Herbert—*Division President*  
Donald R. Keough—*Operations*  
A. E. Killeen—*Wine Group*  
Ian R. Wilson—*Operations*

### Senior Vice Presidents

Ovid R. Davis—*Public Affairs*  
Charles S. Lord—*Finance*  
C. A. Shillinglaw—*Staff*

### Vice Presidents

John H. Ogden—*Domestic Division President*

Sam Ayoub	M. A. Gianturco	S. W. Magruder
H. O. Berkessel	Marion B. Glover, Jr.	Alex Malaspina
J. Allen Brent	J. W. Jones	J. William Pruett, Jr.
R. J. Broadwater	Robert A. Keller	J. F. Staresinich
Leo E. Conroy	W. Glenn Kernel	Albert H. Swett
Paul L. Dillingham	Earl T. Leonard, Jr.	H. E. Teasley
Richard D. Ford	Dianne McKaig	J. E. Vielehr
John W. Georgas		R. V. Waltemeyer

Albert H. Swett . . . . . *General Counsel*  
Charles S. Lord . . . . . *Chief Financial Officer and Treasurer*  
J. F. Staresinich . . . . . *Controller*  
Fred S. Perrin . . . . . *Secretary*

## The Coca-Cola Company and Subsidiaries

# Financial Highlights

(In millions except per share data)

	YEAR ENDED DECEMBER 31,		
	<u>1977</u>	<u>1976*</u>	<u>Percent Increase</u>
Net sales . . . . .	\$3,559.9	\$3,094.5	15.0%
Profit before taxes on income . . . . .	\$ 605.3	\$ 545.5	11.0%
Net profit . . . . .	\$ 326.2	\$ 290.7	12.2%
Net profit per share . . . . .	\$ 2.67	\$ 2.38	12.2%
Dividends per share . . . . .	\$ 1.54	\$ 1.325	16.2%
Shareholders' equity . . . . .	\$1,557.2	\$1,418.5	9.8%
% Net profit to net sales . . . . .	9.2%	9.4%	
% Net profit to shareholders' equity . . . .	20.9%	20.5%	

\*1976 amounts have been restated to include operations of The Taylor Wine Company, Inc. on a pooling of interests basis and to reflect a two-for-one stock split effective in May 1977.



## Description of Business of The Coca-Cola Company

The Coca-Cola Company is the largest manufacturer and distributor of soft drink concentrates and syrups in the world. Its product "Coca-Cola" has been sold in the United States since 1886 and is now sold in over 135 foreign countries as well, and is the leading soft drink product in most of these countries. Other soft drink products include Fanta, Sprite, TAB, Fresca, Mr. PiBB, and Hi-C. In 1977, soft drink products accounted for 76% of total sales and 89% of operating profit from industry segments.

In the United States, 68% of soft drink syrup is sold to 566 bottlers who prepare and sell the products for the food store, vending, and other markets for home and on-premise consumption. The remaining 32% is sold to approximately 3,950 authorized wholesalers which in turn resell the syrup to restaurants and other retailers. Overseas, all soft drink concentrate sales are to bottlers. Bottlers handling about 10% of total volume are Company-owned, both in the United States and overseas.

The Company's worldwide soft drink operations are organized into three operating groups. The Company's largest markets within its Americas Group are the United States, Mexico, and Brazil. The largest markets within the Pacific Group are Japan and Canada. The largest market in the Europe/Africa Group is Germany. Foreign markets account for approximately 60% of worldwide soft drink volume.

The Company manufactures and markets Minute Maid and Snow Crop frozen concentrated citrus juices, Minute Maid chilled juices, and related citrus products. It also markets coffees and teas under the Maryland Club, Butternut and other brands, as well as to private label and institutional accounts.

The Company manufactures and markets still and sparkling wines under the trade-marks "Taylor," "Great Western," "Sterling," and "Monterey Vineyard."

The Company's Aqua-Chem subsidiary is engaged in the design and manufacture of water treatment systems, steam generators, heat exchangers, and other products.

Presto Products Incorporated, with which the Company has announced a preliminary merger agreement subject to approval by Presto shareholders, is engaged in the manufacture and distribution of plastic film products for consumers and industry.

## The Coca-Cola Company and Subsidiaries

	<u>1977</u>	<u>1976</u>	<u>1975</u>
Net sales . . . . .	<b>\$3,559.9</b>	\$3,094.5	\$2,932.5
Gross profit . . . . .	<b>1,550.2</b>	1,365.6	1,187.2
Profit before taxes on income (d) . . . . .	<b>605.3</b>	545.5	471.7
Provision for income taxes . . . . .	<u><b>279.1</b></u>	<u>254.8</u>	<u>226.8</u>
Net profit (d) . . . . .	<b>\$ 326.2</b>	\$ 290.7	\$ 244.9
Average common shares (c) . . . . .	<b>122.2</b>	122.2	122.1
Net profit per share (c) . . . . .	<b>\$ 2.67</b>	\$ 2.38	\$ 2.01
Dividends per share (c)(e) . . . . .	<b>1.54</b>	1.325	1.15
Year-end shareholders' equity (d) . . . . .	<b>\$1,557.2</b>	\$1,418.5	\$1,288.8
Year-end cash and securities . . . . .	<b>416.2</b>	401.6	406.9
Year-end long-term debt . . . . .	<b>13.8</b>	7.9	15.0
% Net profit to net sales . . . . .	<b>9.2%</b>	9.4%	8.4%
% Net profit to shareholders' equity . . . . .	<b>20.9%</b>	20.5%	19.0%
Capital expenditures . . . . .	<b>\$ 260.9</b>	\$184.7	\$ 142.4
Depreciation . . . . .	<b>81.1</b>	71.3	68.3

### Notes:

- (a) Includes results for The Taylor Wine Company, Inc. and Aqua-Chem, Inc. which were combined with the Company in transactions accounted for as poolings of interests in 1977 and 1970, respectively. Combined results for years prior to 1976 include results of Taylor for its fiscal years ended June 30. Combined results for years prior to 1969 include results of Aqua-Chem for its fiscal years ended May 31.
- (b) In 1974, the Company adopted the last-in, first-out (LIFO) accounting method for certain major categories of inventories. This accounting change had the effect of reducing net profit in 1974 by \$31.2 million (\$.26 per share).

## 10-Year Consolidated Summary of Operations (a)

(In millions except per share data)

YEAR ENDED DECEMBER 31,

1974	1973	1972	1971	1970	1969	1968
\$2,579.8	\$2,201.4	\$1,927.2	\$1,772.0	\$1,647.2	\$1,456.8	\$1,273.4
1,003.7	1,022.2	905.4	822.9	746.0	669.4	600.0
375.3	415.9	376.7	338.6	301.3	272.3	242.8
173.9	194.0	179.7	165.3	149.4	137.8	119.3
\$ 201.4(b)	\$ 221.9	\$ 197.0	\$ 173.3	\$ 151.9	\$ 134.5	\$ 123.5
121.9	121.9	121.7	121.5	121.0	120.7	120.5
\$ 1.65(b)	\$ 1.82	\$ 1.62	\$ 1.43	\$ 1.26	\$ 1.11	\$ 1.03
1.04	.90	.82	.79	.72	.66	.58
\$1,179.8	\$1,101.1	\$ 984.6	\$ 882.7	\$ 786.5	\$ 712.0	\$ 650.9
259.1	306.7	238.9	194.8	152.5	144.8	157.3
11.1	8.3	7.1	11.1	16.5	22.7	27.4
7.8%	10.1%	10.2%	9.8%	9.2%	9.2%	9.7%
17.1%	20.1%	20.0%	19.6%	19.3%	18.9%	19.0%
\$ 151.5	\$ 124.8	\$ 117.9	\$ 102.9	\$ 110.5	\$ 115.3	\$ 110.2
61.1	60.5	57.3	53.9	49.8	44.2	41.7

(c) Adjusted for two-for-one stock splits in 1977 and 1968.

(d) Years prior to 1970 have been restated to eliminate provision for unremitted foreign profit. This restatement had the effect of increasing net profit for 1969 and 1968 by \$6.2 million (\$.05 per share) and \$6.4 million (\$.05 per share), respectively.

(e) Dividends per share are presented on an historical basis without giving effect to the merger of Aqua-Chem, Inc. and The Taylor Wine Company, Inc.

## Management's Discussion and Analysis of the Summary of Operations

### Conclusions

✓ Net sales in 1977 increased by \$465.4 million or 15% over net sales for 1976. Net sales of the soft drink industry segment increased by \$286 million or 11.8%. The increase in soft drink sales resulted principally from increased unit volume both domestically and overseas. Net sales of other industry segments increased by \$179 million or 26.5% due principally to higher selling prices of citrus and coffee products, partially offset by decreased coffee volume.

✓ Cost of goods sold in 1977 increased by \$280.7 million or 16.2% over 1976. Soft drink cost of goods sold increased principally as a result of increased volume. Cost of goods sold for other industry segments increased principally as the result of higher costs for raw materials, partially offset by decreased coffee volume.

(Selling, administrative and general expenses in 1977 increased by 14.2%, as compared to an increase of 15% in net sales) The increase in expenses reflects expanded marketing programs, increased levels of general business activity and the effects of inflation. Media advertising expenditures totaled \$183.7 million in 1977, up \$15.3 million over 1976. Taxes other than income taxes increased by \$10.7 million or 21%, principally due to an increase of \$8.4 million in payroll taxes due to higher base payrolls and increased rates in certain locations.

Depreciation and amortization of property, plant and equipment totaled \$81.9 million in 1977, an increase of \$9.9 million or 13.8% over 1976. The increase related principally to an increase in depreciable assets. Maintenance and repairs increased by \$6.4 million or 14.6% over 1976. The increase is a result of the Company's increased investment in plant and equipment over the past several years and higher labor and material costs.

Operating profit from the soft drink industry segment increased as a result of increased volume. Operating profit from citrus, foreign coffee operations and the Company's Aqua-Chem subsidiary also increased, while domestic coffee operations declined in 1977 due to higher coffee prices and lower volume throughout the industry. Operating profit from wine operations declined due to increased advertising expenditures.

✓ Provision for taxes on income in 1977 increased by \$24.3 million or 9.5% over the provision for taxes on income in 1976. The increase



*Management's Discussion and Analysis of the  
Summary of Operations (continued)*

was due to an increase in profit before income taxes, partially offset by a decrease of approximately \$3.6 million due to a decrease in the average effective tax rate.

Net profit increased by \$35.5 million or 12.2% over 1976.

Net sales in 1976 increased by \$162 million or 5.5% over net sales for 1975. Unit sales of soft drinks were at record levels both domestically and overseas. The increase in dollar sales was due principally to increased unit volume of major products and to higher average selling prices for coffee products, substantially offset by lower average selling prices for soft drink syrup in the United States. Domestic syrup prices trended lower throughout 1976 due to the pass-through of lower sugar costs, almost entirely off-setting the effects of volume increases and higher selling prices for coffee and other products in the United States.

Cost of goods sold decreased by \$16.4 million or .9% from 1975, principally as a result of lower sugar costs which more than offset the effects of increased volume and increases in the cost of other items.

In 1976, media advertising expenditures increased by \$21 million or 14.2% and other promotional expenditures also increased substantially. The increase was principally due to increased levels of advertising and promotional activities. Advertising expenditures in 1976 represented a greater percentage of net sales than in 1975 as a result of increased expenditures and the effect of lower average selling prices for soft drink products.

Other income increased principally as a result of increased interest income from marketable securities and other investments, and improvement in market prices of securities valued at the lower of cost or market.

Provision for taxes on income in 1976 increased by \$28 million or 12.3% over the provision for taxes on income in 1975. The increase was principally due to an increase in profit before income taxes, partially offset by a decrease of approximately \$7,000,000 due to a decrease in the average effective tax rate.

Net profit increased by \$45.8 million or 18.7% over 1975, principally as a result of the factors previously discussed.

# The Coca-Cola Company

## Cash Dividends

Cash dividends were paid on common shares in 1977 and 1976 as follows (adjusted for two-for-one stock split in May 1977):

	<u>1977</u>	<u>1976</u>
First Quarter . . . . .	\$ .385	\$ .33125
Second Quarter . . . . .	.385	.33125
Third Quarter . . . . .	.385	.33125
Fourth Quarter . . . . .	.385	.33125
Full Year . . . . .	<u>\$1.54</u>	<u>\$1.325</u>

## Stock Market Information

The principal market in which the securities of the Company are traded is the New York Stock Exchange, Inc. All securities are common stock, no par value. The high and low prices of each quarter for the past two years are as follows (adjusted for two-for-one stock split in May 1977):

	<u>1977</u>		<u>1976</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter . . . . .	\$40.125	\$36.50	\$47.625	\$41.00
Second Quarter . . . . .	39.875	35.875	44.50	38.813
Third Quarter . . . . .	40.875	37.00	44.813	41.438
Fourth Quarter . . . . .	40.25	35.50	43.125	36.688

# The Coca-Cola Company and Subsidiaries

## Consolidated Statements of Profit and Loss

	YEAR ENDED DECEMBER 31,	
	1977	1976
Net sales.....	\$3,559,878,282	\$3,094,523,628
Cost of goods sold.....	<u>2,009,700,447</u>	<u>1,728,960,485</u>
GROSS PROFIT.....	1,550,177,835	1,365,563,143
Selling, administrative and general expenses....	<u>957,072,552</u>	<u>837,857,757</u>
OPERATING PROFIT.....	593,105,283	527,705,386
Other income.....	<u>42,871,486</u>	<u>47,052,697</u>
	635,976,769	574,758,083
Less other deductions.....	<u>30,634,018</u>	<u>29,232,022</u>
PROFIT BEFORE TAXES ON INCOME.....	605,342,751	545,526,061
Provision for taxes on income.....	<u>279,123,000</u>	<u>254,809,937</u>
NET PROFIT.....	<u>\$ 326,219,751</u>	<u>\$ 290,716,124</u>
Net profit per share of common stock.....	\$2.67	\$2.38

## Consolidated Statements of Earned Surplus

	YEAR ENDED DECEMBER 31,	
	1977	1976
Balance at January 1:		
The Coca-Cola Company and Subsidiaries....	\$1,266,268,875	\$1,096,716,913
The Taylor Wine Company, Inc.....		<u>40,365,750</u>
Adjusted balance at January 1.....		1,137,082,663
Net profit for the year.....	326,219,751	290,716,124
Dividends paid in cash:		
The Coca-Cola Company (per share-		
1977, \$1.54; 1976, \$1.325).....	188,170,329	158,787,031
The Taylor Wine Company, Inc., prior to		
combination.....		<u>2,742,881</u>
BALANCE AT DECEMBER 31.....	<u>\$1,404,318,297</u>	<u>\$1,266,268,875</u>

See Notes to Consolidated Financial Statements

# The Coca-Cola Company and Subsidiaries

## Assets

	DECEMBER 31,	
	1977	1976
CURRENT:		
Cash.....	\$ 149,633,047	\$ 102,945,656
Marketable securities—1977, at cost (approximates market price); 1976 at market price (cost, \$260,883,168).....	198,219,118	260,465,266
Trade accounts receivable (less allowance— 1977, \$7,218,909; 1976, \$6,984,611).....	275,508,790	237,316,909
Inventories.....	432,966,578	397,018,167
Prepaid expenses.....	31,922,307	29,536,594
TOTAL CURRENT ASSETS.....	<u>1,088,249,840</u>	<u>1,027,282,592</u>
MARKETABLE SECURITIES—at cost (approximates market price).....	<u>68,392,434</u>	<u>38,241,272</u>
MISCELLANEOUS INVESTMENTS AND OTHER ASSETS.....	<u>94,849,109</u>	<u>92,940,398</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements.....	82,183,631	71,744,181
Buildings.....	396,088,541	324,474,794
Machinery and equipment.....	743,205,844	656,454,914
Containers.....	185,665,467	158,905,503
	<u>1,407,143,483</u>	<u>1,211,579,392</u>
Less allowance for depreciation.....	<u>535,048,473</u>	<u>485,447,525</u>
	<u>872,095,010</u>	<u>726,131,867</u>
FORMULAE, TRADE-MARKS, GOODWILL AND CONTRACT RIGHTS.....	<u>100,338,015</u>	<u>94,908,059</u>
	<u>\$2,223,924,408</u>	<u>\$1,979,504,188</u>

See Notes to Consolidated Financial Statements



# Consolidated Balance Sheets

## Liabilities

	DECEMBER 31,	
	1977	1976
CURRENT:		
Notes payable . . . . .	\$ 37,281,226	\$ 35,634,350
Current maturities of long-term debt . . . . .	4,615,549	5,152,358
Accounts payable and accrued accounts . . . . .	390,832,357	333,986,936
Accrued taxes—including taxes on income . . . . .	156,132,081	131,715,249
TOTAL CURRENT LIABILITIES . . . . .	588,861,213	506,488,893
* LONG-TERM DEBT . . . . .	13,762,022	7,856,974
	5,905,648	
DEFERRED INCOME TAXES . . . . .	64,092,379	46,625,466
CAPITAL STOCK AND SURPLUS:		
Common stock—no par value; authorized 140,000,000 shares; (issued: 1977, 122,604,113 shares; 1976, 122,574,406 shares) . . . . .	61,679,271	61,664,367
Capital surplus . . . . .	106,564,726	105,964,326
Earned surplus . . . . .	1,404,318,297	1,266,268,875
	1,572,562,294	1,433,897,568
Less treasury stock—at cost (1977, 401,338 shares; 1976, 401,958 shares) . . . . .	15,353,500	15,364,713
	1,557,208,794	1,418,532,855
	\$2,223,924,408	\$1,979,504,188

See Notes to Consolidated Financial Statements

# The Coca-Cola Company and Subsidiaries

## Consolidated Statements of Changes in Financial Position

YEAR ENDED DECEMBER 31,

1977

1976

### SOURCE OF WORKING CAPITAL

#### From operations:

Net profit for year . . . . .	\$326,219,751	\$290,716,124
Add charges not requiring outlay of working capital during the year:		
Provision for depreciation . . . . .	81,082,646	71,303,981
Deferred income taxes . . . . .	17,466,913	14,457,232
Other . . . . .	21,249,112	13,720,164
<b>TOTAL FROM OPERATIONS . . . . .</b>	<b>446,018,422</b>	<b>390,197,501</b>
Increase in long-term debt . . . . .	5,905,048	0
Disposals of property, plant and equipment . . . . .	16,711,101	15,816,450
Proceeds from exercise of stock options . . . . .	764,880	840,049
Tax benefit from optioned shares sold . . . . .	154,200	224,900
	<b>469,553,651</b>	<b>407,078,900</b>

### APPLICATION OF WORKING CAPITAL

#### Cash dividends:

The Coca-Cola Company . . . . .	188,170,329	158,787,031
The Taylor Wine Company, Inc. . . . .	0	2,742,881
Additions to property, plant and equipment . . . . .	260,913,663	184,721,607
Increase in marketable securities—non-current . . . . .	30,151,162	11,950,177
Increase in miscellaneous investments . . . . .	1,908,711	18,780,132
Decrease in long-term debt . . . . .	0	1,201,691
Other . . . . .	9,814,858	25,933
	<b>490,958,723</b>	<b>378,209,452</b>

### INCREASE (DECREASE) IN WORKING

CAPITAL . . . . .	(21,405,072)	28,869,448
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Working capital at beginning of year . . . . .	520,793,699	491,924,251
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<b>WORKING CAPITAL AT END OF YEAR . . . . .</b>	<b>\$499,388,627</b>	<b>\$520,793,699</b>
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### INCREASE (DECREASE) IN WORKING CAPITAL, BY COMPONENTS

Cash . . . . .	\$ 46,687,391	\$ 19,155,073
Marketable securities . . . . .	(62,246,148)	(43,331,433)
Trade accounts receivable . . . . .	38,191,881	48,077,146
Inventories . . . . .	35,948,411	49,008,664
Prepaid expenses . . . . .	2,385,713	3,350,171
Notes payable . . . . .	(1,646,876)	(724,783)
Current maturities of long-term debt . . . . .	536,809	(3,402,147)
Accounts payable and accrued accounts . . . . .	(56,845,421)	(62,751,461)
Accrued taxes—including taxes on income . . . . .	(24,416,832)	19,488,218

### INCREASE (DECREASE) IN WORKING

CAPITAL . . . . .	<b>\$ (21,405,072)</b>	<b>\$ 28,869,448</b>
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# Notes to Consolidated Financial Statements

**1. Accounting Policies.** The major accounting policies and practices followed by the Company and its subsidiaries are as follows:

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant inter-company accounts and transactions are eliminated in consolidation. The Company's investments, which are not material, in certain non-consolidated affiliated companies are accounted for by the equity method.

Inventories are valued at the lower of cost or market. The last-in, first-out (LIFO) method of inventory valuation is used for sugar and other sweeteners used in domestic beverages, for certain major citrus concentrate products, and for substantially all inventories of domestic bottling subsidiaries, wine products and certain other domestic and foreign operations. All other inventories are valued on the average or first-in, first-out method. The excess of current costs over LIFO stated values amounted to approximately \$24,000,000 and \$13,000,000 at December 31, 1977 and December 31, 1976, respectively.

Property, plant and equipment is stated at cost, less allowance for depreciation, except that foreign subsidiaries carry bottles and shells in service at amounts (less than cost) which, in general, correspond with deposit prices obtained from customers. Depreciation expense was principally determined by the straight-line method. A portion of the depreciation determined by the straight-line method for financial statement purposes is calculated on accelerated methods for income tax purposes. Deferred income taxes are provided to recognize timing differences in reporting depreciation for accounting and tax purposes. The investment tax credit, which is not material in amount, is accounted for by the flow-through method.

Formulae, trade-marks, goodwill and contract rights are stated on the basis of cost and if purchased subsequent to October 31, 1970, are being amortized, principally on a straight-line basis, over the estimated future periods to be benefited (not exceeding 40 years).

Long-term debt for 1977 includes lease obligations capitalized in accordance with the requirements specified in Statement No. 13 of the Financial Accounting Standards Board (FASB).

**2. Acquisitions.** In January 1977 the Company issued 1,161,000 shares (before 2 for 1 stock split) of its common stock for all of the outstanding common stock of The Taylor Wine Company, Inc. in a transaction accounted for as a pooling of interests. Accordingly, financial statements for 1976 and prior years have been restated to include the accounts of Taylor.

In addition, the Company acquired Sterling Vineyards and Gonzales & Co., Inc. (Monterey Vineyard) which operate wineries. These acquisitions were accounted for as purchase transactions and had no significant effect on operations in 1977.

**3. Proposed Acquisition of Presto Products Incorporated.** The Company has agreed in principle to acquire all of the outstanding common stock of Presto Products Incorporated, a manufacturer and distributor of plastic film products for consumers and industry, in exchange for approximately 1,271,000 shares of common stock of The Coca-Cola Company. The acquisition, which is subject to ap-

## Notes to Consolidated Financial Statements (Continued)

proval of the Board of Directors of The Coca-Cola Company and the stockholders of Presto Products Incorporated, will be accounted for as a pooling of interests and will not significantly affect the consolidated operations of the Company. Presto Products Incorporated's sales and profits for the fiscal year ended September 30, 1977, were \$58,051,184 and \$4,678,872, respectively.

**4. Industry Segments.** The Company operates principally in the soft drink industry. Citrus, coffee, tea, wine, water treatment equipment and heating equipment are included in other industries. Intersegment transfers are not material. Information concerning operations in different industries for the year ended December 31, 1977, is as follows:

Net sales:

Soft drinks.....	\$2,701,741,574
Other industries.....	858,136,708
Total net sales.....	<u>\$3,559,878,282</u>

Operating profit from industry segments:

Soft drinks.....	\$ 562,154,891
Other industries.....	72,376,162
Total from industry segments.....	634,531,053
Other income, net of other deductions.....	4,897,682
General expenses.....	(34,085,984)
Profit before taxes on income.....	<u>\$ 605,342,751</u>

Identifiable assets at year-end:

Soft drinks.....	\$1,518,820,398
Other industries.....	424,000,966
Total by industry segments.....	1,942,821,364
Corporate assets (principally cash and marketable securities).....	281,103,044
Total assets at year-end.....	<u>\$2,223,924,408</u>

Capital expenditures by industry segment:

Soft drinks.....	\$ 187,235,302
Other industries.....	48,609,297

Depreciation and amortization by industry segment:

Soft drinks.....	\$ 65,381,863
Other industries.....	14,987,131

**5. Operations in Geographic Areas.** Information about the Company's operations in different geographic areas for the year ended December 31, 1977, is presented below. Inter-company transfers between geographic areas are not material.

Net sales:

United States and Puerto Rico.....	\$2,008,496,396
Latin America.....	269,539,728
Europe and Africa.....	668,730,408
Canada and Pacific.....	613,111,750
Total net sales.....	<u>\$3,559,878,282</u>



## Notes to Consolidated Financial Statements (Continued)

### Operating profit from geographic areas:

United States and Puerto Rico	\$ 263,596,336
Latin America	67,258,683
Europe and Africa	189,435,023
Canada and Pacific	114,241,011
Total from geographic areas	634,531,053
Other income, net of other deductions	4,897,682
General expenses	(34,085,984)
Profit before taxes on income	<u>\$ 605,342,751</u>

### Identifiable assets at year-end:

United States and Puerto Rico	\$1,059,767,950
Latin America	196,325,327
Europe and Africa	413,783,118
Canada and Pacific	272,944,969
Total by geographic areas	1,942,821,364
Corporate assets (principally cash and marketable securities)	281,103,044
Total assets at year-end	<u>\$2,223,924,408</u>

### Capital expenditures by geographic areas:

United States and Puerto Rico	\$ 121,617,364
Latin America	28,626,230
Europe and Africa	47,810,182
Canada and Pacific	37,790,823

### Depreciation and amortization by geographic areas:

United States and Puerto Rico	\$ 51,074,078
Latin America	4,542,005
Europe and Africa	13,664,759
Canada and Pacific	11,088,152

**6. Foreign Operations.** The Company's identifiable assets and liabilities outside the United States and Puerto Rico are shown below:

	DECEMBER 31,	
	1977	1976
Current assets	\$459,678,546	\$383,468,404
Property, plant and equipment—net	357,053,632	293,846,889
Other assets	66,321,236	74,206,799
	883,053,414	751,522,092
Liabilities	370,413,441	308,898,200
Net assets	<u>\$512,639,973</u>	<u>\$442,623,892</u>

Net sales of operations outside the United States and Puerto Rico were 44% of total net sales in 1977 and 41% in 1976. Operating profit attributable to such business amounted to approximately 58% of total operating profit from geographic areas in 1977 and 55% in 1976. Exchange adjustments were not material in amount in either year.

Appropriate United States and foreign income taxes have been accrued on profits of subsidiary companies which are expected to be remitted to the Parent Company in the near future. Unremitted profits of foreign subsidiaries which are expected to be required for use in the foreign operations amounted to approximately \$50,000,000 at December 31, 1977, exclusive of amounts which if remitted would result in little or no tax.

## Notes to Consolidated Financial Statements (Continued)

**7. Stock Options.** Options were held by officers and employees of the Company and its subsidiaries to purchase shares of the Company's common stock at prices ranging principally from \$24.97 to \$67.91 per share in 1977 and from \$24.97 to \$69.63 per share in 1976. Further information relating to the options is as follows (adjusted for a two-for-one stock split):

	1977	1976
Options outstanding at January 1.....	975,862	907,300
Options granted during the year.....	356,814	124,800
Options exercised during the year.....	(30,327)	(33,644)
Options cancelled during the year.....	(207,495)	(22,594)
Options outstanding at December 31.....	<u>1,094,854</u>	<u>975,862</u>
Options exercisable at December 31.....	<u>383,565</u>	<u>359,680</u>
Shares available for option which may be granted.....	<u>114,351</u>	<u>254,200</u>

**8. Pension Plans.** The Company and its subsidiaries have various pension plans covering substantially all employees, including certain employees in foreign countries. Pension expense determined under various actuarial cost methods, principally aggregate level cost method, amounted to \$23,911,053 in 1977 and \$19,580,755 in 1976. In general, pension costs are funded when accrued. The amount of unfunded past service costs is not significant.

**9. Changes in Capital.** On May 9, 1977, the authorized common stock was increased from 70,000,000 shares to 140,000,000 shares and one additional share of common stock was issued to the stockholders for each share held on that date. The stock split had no effect on the amount assigned to the capital stock account. The accompanying financial statements have been appropriately adjusted to reflect the stock split. The changes in capital during 1976 and 1977 are as follows:

	Common Stock Issued		Capital Surplus
	Shares	Amount	
Balance January 1, 1976.....	60,109,381	\$60,474,767	\$ 87,451,756
Sale of stock to employees exercising stock options.....	16,822	16,990	823,059
Tax benefit from sale of option shares by employees.....	—	—	224,900
Balance December 31, 1976.....	60,126,203	60,491,757	88,499,715
Stock issued in acquisition of The Taylor Wine Company, Inc.....	1,161,000	1,172,610	17,464,611
Balance December 31, 1976, after giving effect to merger.....	61,287,203	61,664,367	105,964,326
Adjustment for 2 for 1 stock split....	61,287,203	—	—
Adjusted balance December 31, 1976.....	122,574,406	61,664,367	105,964,326
Sale of stock to employees exercising stock options.....	29,707	14,904	738,764
Tax benefit from sale of option shares by employees.....	—	—	154,200
Non-recurring expenses of 2 for 1 stock split.....	—	—	(292,564)
Balance December 31, 1977.....	<u>122,604,113</u>	<u>\$61,679,271</u>	<u>\$106,564,726</u>

*Notes to Consolidated Financial Statements (Continued)*

**10. Impact of Inflation (Unaudited).** The Company's annual report on Form 10-K contains specific information with respect to 1977 and 1976 replacement cost of inventories and productive capacity, and the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year. The costs of raw materials for citrus and coffee products were substantially higher in 1977 than in the prior year while the cost of sugar, used in soft drinks and certain other products, was moderately lower. Historically, the Company has compensated for changes in production costs by adjusting selling prices.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a greater capital investment than was required to purchase the assets which are being replaced. The additional capital investment principally reflects the cumulative impact of inflation on the long-lived nature of these assets.

**11. Quarterly Results of Operations (Unaudited).** The following is a tabulation of the unaudited quarterly results of operations for the years ended December 31, 1977 and 1976:

	1977	1976
Net sales:		
First quarter . . . . .	\$ 785,622,959	\$ 660,688,181
Second quarter . . . . .	945,356,354	847,728,063
Third quarter . . . . .	948,925,139	840,149,732
Fourth quarter . . . . .	879,973,830	745,957,652
	<u>\$3,559,878,282</u>	<u>\$3,094,523,628</u>
Gross profit:		
First quarter . . . . .	\$ 333,671,317	\$ 295,486,667
Second quarter . . . . .	425,190,376	377,458,000
Third quarter . . . . .	429,909,494	384,494,014
Fourth quarter . . . . .	361,406,648	308,124,462
	<u>\$1,550,177,835</u>	<u>\$1,365,563,143</u>
Net profit:		
First quarter . . . . .	\$ 65,675,443	\$ 59,016,310
Second quarter . . . . .	95,927,997	85,466,831
Third quarter . . . . .	93,300,584	83,589,335
Fourth quarter . . . . .	71,315,727	62,643,648
	<u>\$ 326,219,751</u>	<u>\$ 290,716,124</u>
Net profit per share:		
First quarter . . . . .	\$ .53	\$ .48
Second quarter . . . . .	.79	.70
Third quarter . . . . .	.77	.69
Fourth quarter . . . . .	.58	.51
	<u>\$2.67</u>	<u>\$2.38</u>

# Report of Independent Accountants

To Directors and Stockholders  
The Coca-Cola Company  
Wilmington, Delaware

We have examined the consolidated balance sheets of The Coca-Cola Company and subsidiaries as of December 31, 1977 and 1976, and the related consolidated statements of profit and loss, earned surplus and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The Coca-Cola Company and subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Atlanta, Georgia  
February 24, 1978

*Ernst & Ernst*  
**E&E**



## Other Information

The Coca-Cola Company is committed to Equal Employment Opportunity in all of its policies regarding recruiting, hiring, transfers, promotions, compensation, benefits, training, layoff and recall practices. These are administered without regard to race, color, religion, sex, age or national origin.

To implement its policy of Equal Employment Opportunity, the Company has developed an Affirmative Action Plan, administered by the Manager of EEO. In addition, each installation has an Affirmative Action Program covering the employee complement in that unit including guides and standards developed to insure that decisions on employment and benefits are based on valid job-related criteria.

The Company's Equal Employment Opportunity program has produced steady increases in the number of minorities and women employed and advanced. In 1977 minority group employees constituted 28% of the total work force of The Coca-Cola Company and its divisions in the United States, up 4% from 1973, and double the national work force parity. Significantly, more than one out of every four minority employees in the Company holds a "white collar" job. Since 1973 the number of minority employees in managerial, professional and technical positions has increased by 17%.

In 1977 women made up 27% of the total work force of The Coca-Cola Company, up 2% from 1973. Emphasis has been focused on upward mobility, and women now hold 34% of all "white collar" jobs. Since 1973, the number of women in managerial, professional and technical positions has increased by 29% even though the total employee complement in these positions remained level. In addition, the percentage of women in "blue collar" jobs increased by 22% since 1973.

The following additional information may be obtained by shareholders without charge upon request by writing to The Office of the Secretary, The Coca-Cola Company, P.O. Drawer 1734, Atlanta, Georgia 30301:

The Summary Plan Description and the Summary Annual Report of the Employees' Retirement Plan of The Coca-Cola Company, as furnished to employees of the Company pursuant to the Employee Retirement Income Security Act of 1974 (ERISA).

## **The Coca-Cola Company**

310 North Avenue, N.W.  
Atlanta, Georgia 30313

Mailing Address:  
P.O. Drawer 1734  
Atlanta, Georgia 30301

## **Dividend Disbursing Agent**

Trust Company Bank  
Corporate Trust Department  
P.O. Box 4625  
Atlanta, Georgia 30302

## **Transfer Agents/Registrars**

Trust Company Bank  
Corporate Trust Department  
P.O. Box 4625  
Atlanta, Georgia 30302

Morgan Guaranty Trust Company of New York  
Stock Transfer Department  
30 West Broadway  
New York, New York 10015



*The Coca-Cola Company*